

# Parker-Davis Project

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FY 2021 Charges, July 9, 2020

# Questions/Comments

## For those utilizing Webex:

- Click the hand icon to the right of your name in the participant window. This will alert us that you have a question and you will be recognized. After your question has been addressed, click the hand icon again to lower your hand.



- Type “question” or your specific question in the chat window. You will be recognized and can ask your question.

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# Agenda

- Standard Calculation Parameters
- FY 2019 Summary
- FY 2020 Calculation of Charges
- FY 2021 Generation Charge Determinates
- FY 2021 Transmission Charge Determinates
- Flexibility of Repayment (Mitigation Techniques)
- Preliminary FY 2021 Charges
- Next Steps and Contact Information

# Standard Calculation Parameters

- Actual work plans are used to project O&M expenses when available. Work plans are escalated for inflation in remaining years of cost evaluation period (rate window).
- Ten-Year Plan information from WAPA and Reclamation is used to project capital costs
- Costs not readily identified as generation or transmission are allocated via the Cost Apportionment Study
- Transmission sales projections are based on contractual values, adjusted for known and measurable differences
- Deficits occur when revenues and carryover are insufficient to cover annual expenses and required investment payments

# FY 2019 Summary

Projected			Actual		
Revenue			Revenue		
\$ 71,817,877			\$ 73,411,304		
Expenses			Expenses		
Operations & Maintenance	\$	46,971,550	Operations & Maintenance	\$	48,629,666
Purchase Power & Wheeling		3,920,000	Purchase Power & Wheeling		11,862,319
Principal & Interest		24,115,320	Principal & Interest		23,676,075
\$ 75,006,870			\$ 84,168,060		
Net Revenue After Expenses		\$ (3,188,993)	Net Revenue After Expenses		\$(10,756,756)
Carryover	→	\$ 6,104,847	Carryover	→	\$ -
Carryover / (Deficit)		\$ 2,915,854	Carryover / (Deficit)	→	\$(10,756,756)

# FY 2020 Calculation of Charges

## Generation Charges

- Amortizing Reclamation replacements reduced the projected increase of the FY 2020 generation charge by 6%
- Leveling the generation charge over the five-year rate window reduced the projected increase by 9%

## Transmission Charges

- Deferring principal payments to future years reduced the anticipated transmission charge increase by 13%
- Leveling the transmission charge over the five-year rate window reduced the projected increase by 10%

# Drivers of FY 2021 Calculations

## Upward Pressure

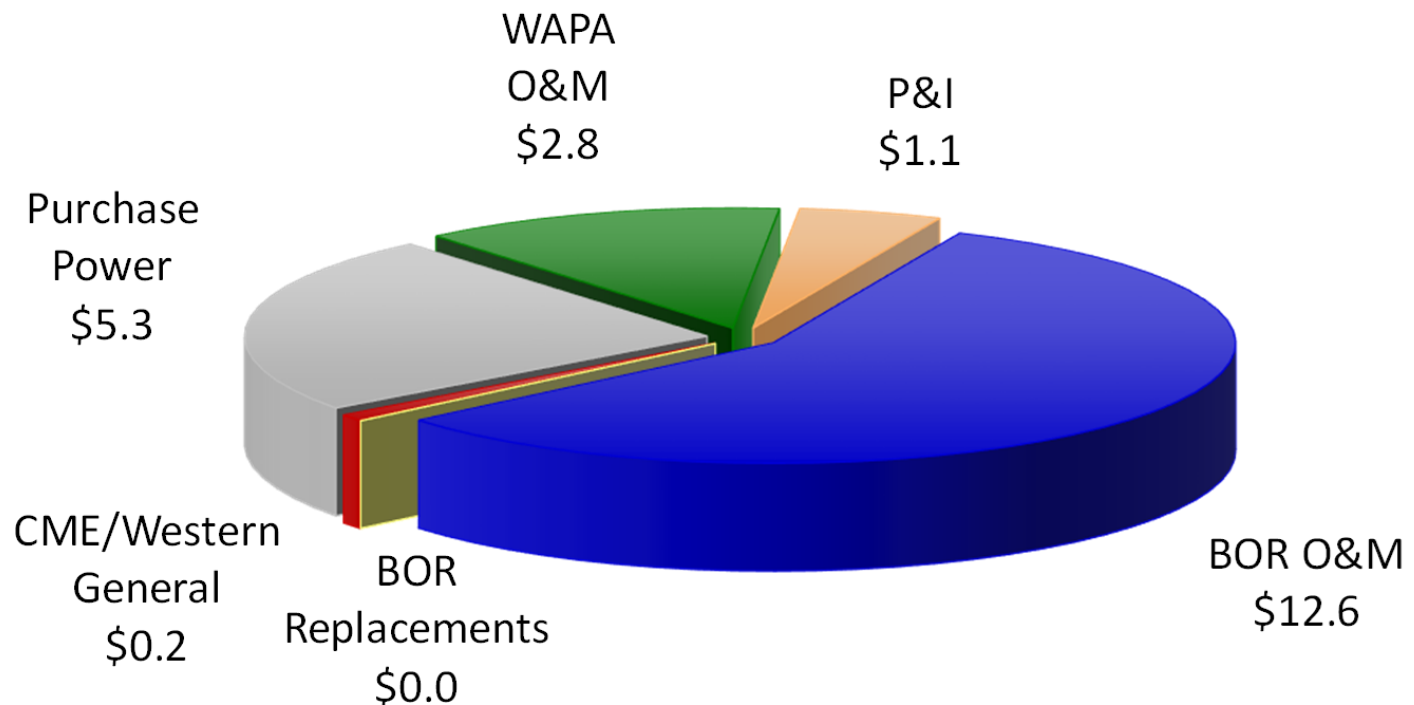
- Larger allocation of O&M workplan (Gen)
- Increased Principal & Interest (Gen & Tran)
- Decreased Reservations – averaged over 5 years (Tran)

## Downward Pressure

- Flexibility of Repayment
  - Principal & Interest (Tran)
  - Leveling (Gen & Tran)

# FY 2021 Generation Charge Determinates

Average Annual Expenses (in millions)





# FY 2021 Generation Charge Determinates

## WAPA O&M (in millions)

Fiscal Year	Generation
<b>Ratebase</b>	
2016	\$2.0
2017	\$2.1
2018	\$2.3
2019	\$2.6
2020	\$2.4
<b>Prelim 2021</b>	\$2.8

WAPA's overall O&M projections did not change during the rate window; however, the percentage allocated to generation increased.

# FY 2021 Generation Charge Determinates

## Principal & Interest (in millions)

Fiscal Year	Generation
<b>Ratebase</b>	
2016	\$0.1
2017	\$0.1
2018	\$0.1
2019	\$0.1
2020	\$0.7
<b>Prelim 2021</b>	<b>\$1.1</b>

Increases include the annual principal and interest payments on replacements and deficits for FY 2018 and FY1 2019.

# FY 2021 Generation Charge Determinates

## Average Annual Expenses (in millions)

	FY20-24	FY21-25	Δ
Reclamation O&M	\$11.8	\$12.6	\$0.8
WAPA O&M	\$2.4	\$2.8	\$0.4
CME/WAPA General Expense	\$0.2	\$0.2	-
Purchase Power/Wheeling	\$5.3	\$5.3	-
Reclamation Replacements	\$0.0	\$0.0	-
P&I	\$0.7	\$1.1	\$0.4
Subtotal	\$20.4	\$22.0	\$1.6

# FY 2021 Generation Charge Determinates

## Average Annual Other Revenue, Carryover and Reservations (in millions)

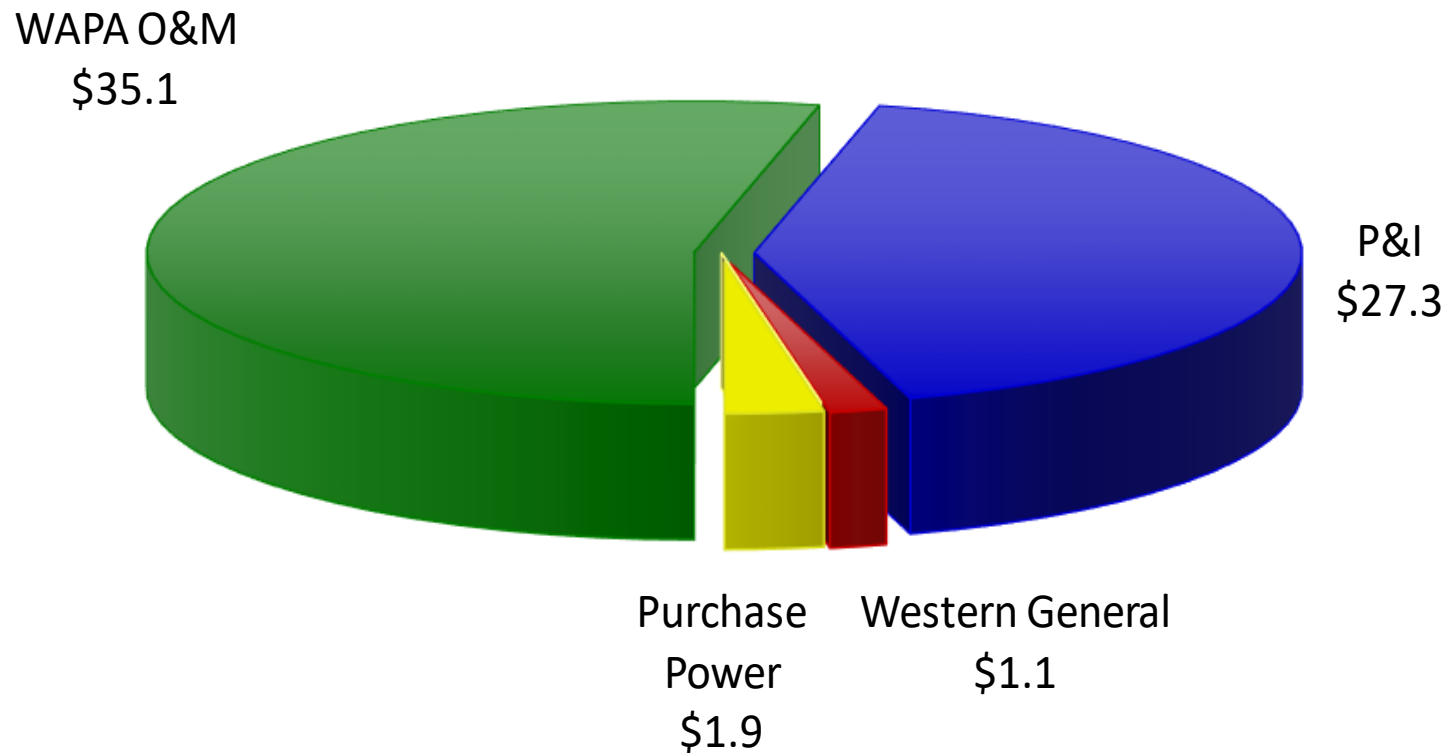
	FY20-24	FY21-25	$\Delta$
Other Revenue	\$0.3	\$0.2	\$(0.1)
Carryover	\$0.0	\$0.0	-
Subtotal	\$0.3	\$0.2	\$(0.1)

Revenue Requirement	\$20.1	\$21.8	\$1.7
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Reservations (GWh)	1,425	1,425	-
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# FY 2021 Transmission Charge Determinates

## Average Annual Expenses (in millions)



# FY 2021 Transmission Charge Determinates

## Principal & Interest

- While replacing aging infrastructure puts significant upward pressure on the charge, WAPA is collaborating with its customers, through the Ten-Year Plan process, to identify the projects and priority needed to keep the transmission system safe, secure, and reliable
- Capital costs account for approximately 40% of the transmission charge
- As in recent years, WAPA has deferred making principal payments to moderate charge increases

# FY 2021 Transmission Charge Determinates

## Principal & Interest (in millions)

Fiscal Year	Transmission	Deferred	Impact
<b>Ratebase</b>			
2016 <sup>1</sup>	\$22.5	\$5.4	(11%)
2017 <sup>2</sup>	\$27.4	\$3.1	( 5%)
2018 <sup>1</sup>	\$23.7	\$6.0	(10%)
2019 <sup>1</sup>	\$25.2	\$5.4	( 9%)
2020 <sup>1</sup>	\$26.3	\$5.4	(13%)

<b>Prelim 2021<sup>1</sup></b>	<b>\$27.3</b>	<b>\$4.1</b>	<b>(8%)</b>
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<sup>1</sup> Principal payments deferred 100%

<sup>2</sup> Principal payments deferred 50%

# FY 2021 Transmission Charge Determinates

## Average Annual Expenses (in millions)

	FY20-24	FY21-25	Δ
WAPA O&M	\$35.5	\$35.1	\$(0.4)
WAPA General Expense	\$1.3	\$1.5	\$0.2
CME & Multi-Project	\$(0.6)	\$(0.4)	\$0.2
Purchase Power/Wheeling	\$1.9	\$1.9	-
P&I	\$26.3	\$27.3	\$1.0
Subtotal	\$64.4	\$65.4	\$1.0



# FY 2021 Transmission Charge Determinates

## Average Annual Other Revenue, Carryover, and Reservations (\$ in millions)

	FY20-24	FY21-25	Δ
Other Revenue	\$6.5	\$6.5	-
Carryover	\$0.0	\$0.0	-
Subtotal	\$6.5	\$6.5	\$0.0

Revenue Requirement	\$57.9	\$58.9	\$1.0
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Reservations (MW)	2,663	2,610	(53)
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# Flexibility of Repayment - Deferral

- In the last few years, we have restructured (deferred) our principal payments since project repayment is ahead of schedule
- Deferring FY 2020 principal payments reduced the anticipated transmission charge increase by 13% for a minimal increase in interest costs
- We can continue to restructure our repayment to moderate increases, but should do so cautiously
- Deferring FY 2021 principal payments would reduce the transmission charge increase by 8%; from 12% to 4%

# Flexibility of Repayment - Leveling

- Another technique that WAPA is using to mitigate large single-year increases, is to spread the increases throughout the rate window
- This technique reduces the initial impact by leveling rate increases, while offering stability and more predictability to customers
- Leveling is not a method of predicting or projecting future rates, as each fiscal year's rate has a different rolling 5-year rate window
- Leveling is a method of reducing the charge collected in the early years to cover costs not projected to be incurred until later years

# Flexibility of Repayment - Leveling

Rate Window FY 2021 - 2025	Rev. Req. Averaged Rate	Rate Window FY 2021 - 2025	Rev. Req. for Leveled Rate
<b>GENERATION</b>			
2021	\$ 21,760,437	2021	\$ 19,480,365
2022	\$ 21,760,437	2022	\$ 20,620,401
2023	\$ 21,760,437	2023	\$ 21,760,437
2024	\$ 21,760,437	2024	\$ 22,900,473
2025	\$ 21,760,437	2025	\$ 24,040,509
<b>Total</b>	<b>\$ 108,802,185</b>	<b>Total</b>	<b>\$ 108,802,185</b>
<b>TRANSMISSION</b>			
2021	\$ 58,891,906	2021	\$ 53,205,297
2022	\$ 58,891,906	2022	\$ 56,543,962
2023	\$ 58,891,906	2023	\$ 59,057,027
2024	\$ 58,891,906	2024	\$ 61,570,092
2025	\$ 58,891,906	2025	\$ 64,083,152
<b>Total</b>	<b>\$ 294,459,530</b>	<b>Total</b>	<b>\$ 294,459,530</b>

# Charges

	FY 2020 (current)	FY 2021 (preliminary)	$\Delta$	% $\Delta$
Energy (mills/kWh)	6.49	6.84	0.35	5%
Capacity (kW-Month)	\$2.84	\$2.99	\$0.15	5%
Composite w/o Transmission (mills/kWh)	12.97	13.67	0.70	5%

Firm Transmission (kW-Month)	\$1.65	\$1.72	\$0.07	4%
NITS Revenue Requirement	\$51.5m	\$53.2m	\$1.7m	3%

# Questions/Thoughts



# Next Steps

- Information regarding the FY 2021 charges will be posted on WAPA's website:

<https://www.wapa.gov/regions/DSW/Rates/Pages/Parker-Davis-rates.aspx>

- Generation costs finalized at Advancement of Funds Annual Funding Board – July 16, 2020
- Charges will be finalized in August and become effective for the October 2020 service month

# WAPA Contacts

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